Vendor Management project

Highlights of an assignment to design and implement an IT Vendor Management System

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Some numbers and characteristics have been modified to protect the confidentiality of the Client.

The company

- Financial services company providing a wide range of financial products & services to individuals and companies.

- Headquartered in the US, considers itself as "regional" in spite of a strong presence online.

- Multisite, to serve consumer base in the US. Several additional sites in Canada including a research & development center.

- $987 mi revenue, with steady organic growth.

- History of driving value with technology investments.

- Doubled revenue in 12 years due to increased presence online and development of high value web services.

Initial assessment - Highlights

- Following three network failures in 18 months and poor survey results ref. outsourced IT services, initial request was to design and implement a Vendor Management System for IT category.

- Facts are well documented and several major vendors have their responsibility clearly established in failures.

- However, root cause analysis revealed that the situation required much more than a VMS.

- A complete review of roles and responsibility between IT and Procurement was also necessary, along with an unbiased and reliable contract management system.

- IT category intuitively classified as strategic based on spend.
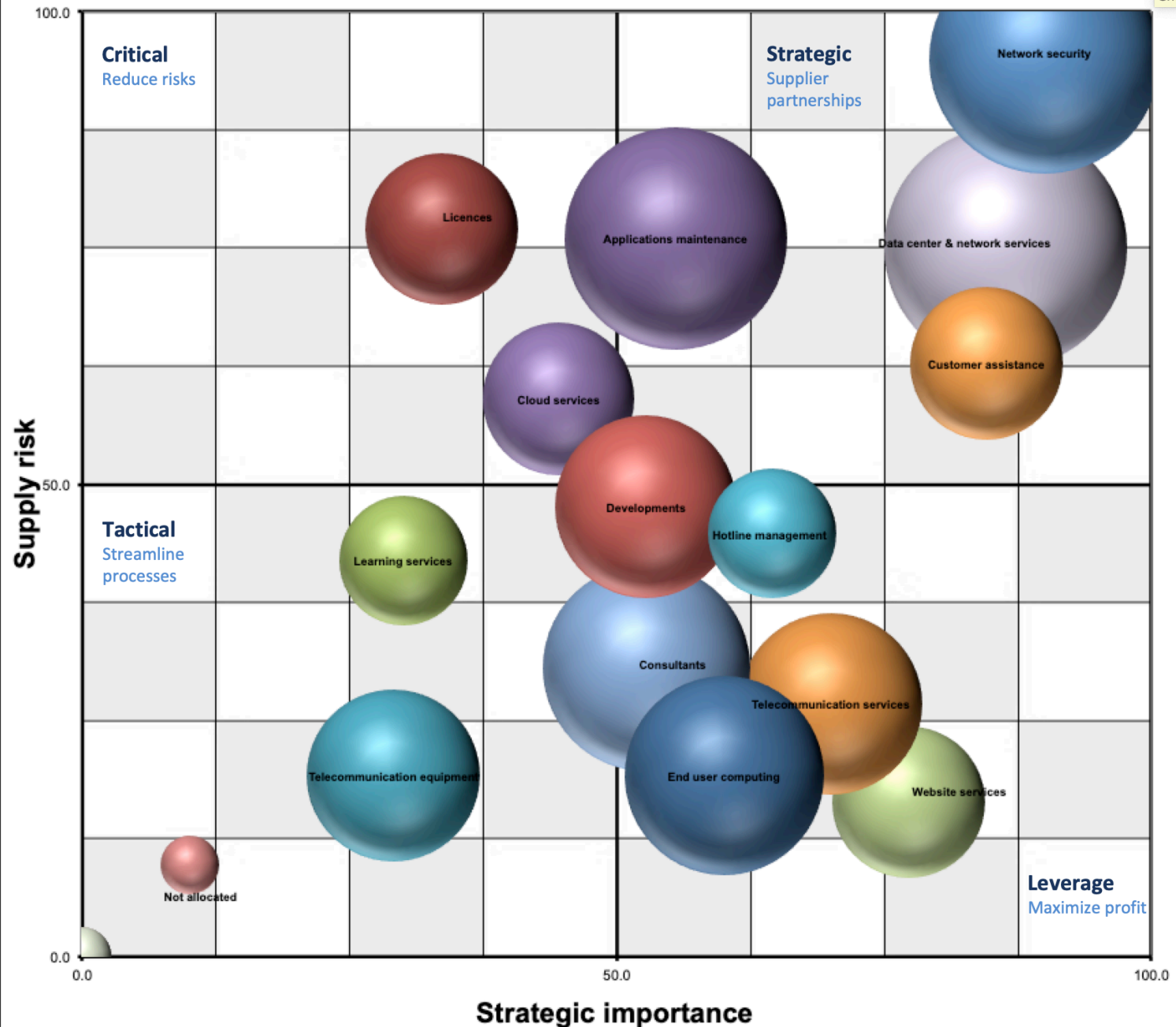
Initial assessment - Highlights

- IT third party expenditures represent 189 mi$, mostly managed by IT Department. Includes Hardware, software, maintenance and development.

- 133 active suppliers excluding self-employed consultants.

- 7 vendors represent 80% of spend.

- No established category strategy for Procurement.

- Make-or-Buy is never considered as an option.

- No formal vendor qualification, evaluation and development.

- Contracting does not reflect the strategic intent of IT.

- Few SLA's exists but are mostly not enforced.

- Current IT supply base is not really challenged at contract renewal.

Assessment of IT category

- Building on the work previously done internally, a complete assessment of the category was performed:

  - Current business strategy of IT category.

  - Category history, contract and price evolution.

  - Risk assessment.

  - Portfolio analysis of sub-categories (Constraint analysis + Supply risk/Strategic importance).

  - Current supplier overview, performance, positioning and classification.

  - Supply base segmentation and gap analysis.

  - Supply market overview.

  - Sourcing methodologies and contract management.

IT Category Portfolio Analysis

Critical
Reduce risks

Strategic
Supplier partnerships

Tactical
Streamline processes

Leverage
Maximize profit

Supply risk

Strategic importance

- Network security
- Licences
- Applications maintenance
- Data center & network services
- Customer assistance
- Cloud services
- Developments
- Hotline management
- Learning services
- Consultants
- Telecommunication services
- Telecommunication equipment
- End user computing
- Website services
- Not allocated

Design and implementation

- Elaboration of a specific IT vendor management system centered on continuous improvement, with description of processes, associated tools and decision points.

- Creation of the role of Key Supplier Account Manager as the "owner" of the relation with a specific vendor.

- Clear cut definition of roles and responsibilities.

- Presentation to internal stakeholders and training

- Presentation to vendors and Implementation

- Multifunctional contract reviews conducted.

- (Re)negotiation of SLA's.
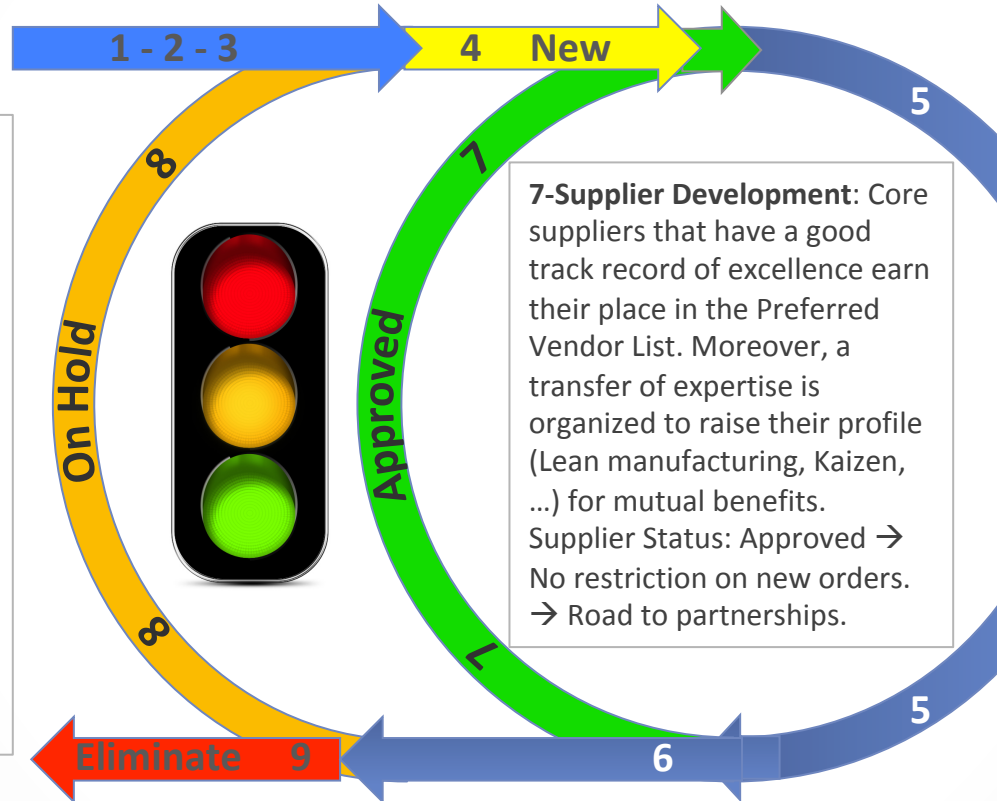
- Implementation of vendor status management.

Vendor Management System

2-Supplier Positioning: Expert / Designer / Producer / Provider, depending on expertise and strategic intent
3-Supplier Classification: Strategic / Non-strategic

4-Supplier Initial Assessment and Qualification: Self-assessment and information disclosure - formal initial audit - Risk assessment Status: New → Limited orders under control of Sourcing Team.

1-Supplier Sourcing

1 - 2 - 3   **4   New**

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8-Supplier Probation: QCDI performance below expectations. Supplier status: On-Hold → Restriction on new order. Waiver only, under strict control of Sourcing Team. Corrective Action plan in place to meet minimum requirements for Approved Status recovery. If not met within reasonable time→ Eliminate

On Hold

7

Approved

7-Supplier Development: Core suppliers that have a good track record of excellence earn their place in the Preferred Vendor List. Moreover, a transfer of expertise is organized to raise their profile (Lean manufacturing, Kaizen, …) for mutual benefits.
Supplier Status: Approved → No restriction on new orders. → Road to partnerships.

5-Supplier Evaluation: After initial ramp-up, under normal operating conditions, Suppliers are expected to meet and exceed consistently minimum QCDI performance requirements.
Periodic contract / Supplier reviews are conducted by the multi-functional Sourcing Team to reassess the Supplier Status according to the Traffic Light Model.

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Eliminate   9

6

9-Supplier Elimination: Phase out plan – Supplier Status Eliminate → No new order / Data remains in supply base to avoid reintroduction without scrutiny.

6-Traffic Light Model: In function of their QCDI performance record against well defined criteria, suppliers are assigned a ≠ status with associated action plans and impact on new orders.

Situation at the end of the project

- All stakeholders have been trained to vendor management
- IT and Procurement work as a multifunctional team with clear roles and responsibilities, and a single voice.
- Self-inflicted monopolies are being addressed.
- 11% of vendors are in "Eliminate" status with an exit plan.
- 15% including 2 strategic are "on Hold" with a recovery plan.
- All strategic and critical suppliers have been reviewed and KSAM's are recognized owners of the vendor relation.
- SLA's in line with business needs are in place and enforced.
- Multifunctional contract reviews are the new normal.
- Strategic sourcing is conducted by multifunctional teams.

Recommendations and possible next steps

- Consider make-or-buy for core strategic IT activities.

- Constantly reassess IT category to make sure technology enables the strategic changes required by the business.

- Keep a special focus on risk assessment and supplier innovation with dedicated apps.

- Externalize the management of IT consultants and related contingent workforce.

- Deploy a contract management app.

- Extend the IT Vendor Management system to all categories.

- Design and implement a Supplier Portal.

Thank you

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Questions?

Next steps

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